

Message Text

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ACTION EB-07

INFO OCT-01 EUR-12 ISO-00 AID-05 CIAE-00 COME-00 FRB-03

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FM AMEMBASSY OSLO

TO SECSTATE WASHDC 3066

AMEMBASSY COPENHAGEN

AMEMBASSY HELSINKI

AMEMBASSY REYKJAVIK

AMEMBASSY STOCKHOLM

USMISSION OECD PARIS

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E.O. 11652: N/A

TAGS: EFIN, NO, SW, FI, DA, IC

SUBJECT: NORDIC INVESTMENT BANK (NIB)

REF: (A) STATE 308406 OF 1976, (B) OSLO A-131 OF AUGUST 17, 1976,
(C) HELSINKI 2672 OF 1976, (E) COPENHAGEN 4827, OF 1976, (F) REY-
KJAVIK 15

1. REF B CONTAINS SOME OF THE INFORMATION REQUESTED IN REF A. IN
ADDITION, E/C COUNSELOR RECENTLY DISCUSSED FUNCTIONS AND PURPOSES OF
NIB WITH HERMOD SKAANLAND WHO IS CHAIRMAN OF THE NIB AND DEPUTY
DIRECTOR OF NORWAY'S CENTRAL BANK. SKAANLAND GAVE E/C COUNSELOR
COPY OF A SPEECH IN ENGLISH HE GAVE TO A RECENT FINANCIAL TIMES
CONFERENCE IN STOCKHOLM ON THE ROLE OF THE NIB. SPEECH IS DATED
OCTOBER 28, 1976. IT CONTAINS MUCH OF INFORMATION REQUESTED BY
DEPARTMENT IN REF A. IT WILL BE TRANSMITTED TO ACHILLES IN
EUR/NE AND TO OTHER ADDRESSEES. IN ADDITION, SKAANLAND PROVIDED IN-
FORMATION WHICH FOLLOWS.

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2. ONE-HUNDRED MILLION SDR OF THE BANK'S AUTHORIZED CAPITAL OF
400 MILLION SDR WILL BE PAID IN BY MEMBER COUNTRIES. THE REMAINING
300 MILLION SDR WILL BE GUARANTEED BY MEMBER COUNTRIES AND WILL
BE PAID IN AT THE REQUEST OF THE NIB BOARD. THE NIB HAS THE
RIGHT TO BORROW 600 MILLION SDR. SKAANLAND ANTICIPATES THAT MOST
OF THESE FUNDS WILL BE BORROWED IN EUROPEAN CAPITAL MARKETS WITH
AN INITIAL LOAN FLOATED LATER THIS YEAR.

3. THE NIB WILL PURSUE A POLICY OF NOT LOANING MORE THAN APPROXIMATELY 33 MILLION SDR TO ANY ONE PROJECT. INTEREST RATES ON LOANS GRANTED BY THE NIB WILL BE 3/4 PERCENT OVER THE NIB'S BORROWING RATE. NIB LOAN TERMS FOR NEW PROJECTS WILL BE LONGER THAN THOSE AVAILABLE FROM COMMERCIAL BANKS AND COULD BE AS LONG AS 20 YEARS BUT WILL NOT COVER THE ECONOMIC LIFE OF A PROJECT. NORMALLY, THE NIB WILL REQUIRE REPAYMENT WITHIN A REASONABLE PERIOD BASED ON ITS EVALUATION OF EXPECTED PROFITS OR CASH FLOW FROM THE PROJECT. THE NIB WILL ALSO NORMALLY FINANCE A MAXIMUM OF 40 PERCENT OF A PROJECT, ALTHOUGH 50 PERCENT IS NOT EXCLUDED IN EXCEPTIONAL CIRCUMSTANCES.

4. SKAANLAND ENVISAGES THAT THE NIB WILL LARGELY ENGAGE IN PROJECTS FINANCING AND THAT IT WILL NOT GIVE DIRECT ASSISTANCE FOR FINANCING OF BALANCE OF PAYMENTS DEFICITS. FOR THE MOST PART, THE EXPORT CREDIT ORGANIZATIONS OF MEMBER COUNTRIES WILL BE EXPECTED TO PROVIDE FINANCING FOR EXPORTS. (AS STATED IN HIS SPEECH AND IN REF B, THE NORWEGIAN PARLIAMENT RULED OUT NIB FINANCING OF INVESTMENT IN A NON-MEMBER COUNTRY.)

5. SINCE NIB GUARANTEES WILL HAVE THE SAME CLAIM ON NIB WILL BE ACTIVE IN GUARANTEES. (DRAFTERS OF THE NIB CHARTER, SKAANLAND SAYS, WERE UNABLE TO AGREE UPON A FORMULA UNDER WHICH NIB GUARANTEES WOULD CONSTITUTE A LESSER CLAIM ON NIB RESOURCES THAN LOANS.)

6. THERE IS NOTHING IN THE NIB CHARTER WHICH CALLS FOR FAVORING SCANDANAVIAN SUPPLIERS, AND FOREIGN SUPPLIERS ARE ELIGIBLE TO LIMITED OFFICIAL USE

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PARTICIPATE IN NIB FINANCED PROJECTS. HOWEVER, SKAANLAND SAID THAT HE ANTICIPATED THE NIB WOULD USUALLY MAKE LOANS TO PROJECTS INVOLVING A CONSIDERABLE QUANTITY OF SCANDANAVIAN-PRODUCED GOODS. FOR EXAMPLE, HE CITED THE FERROSILICON PLANT TO BE BUILT IN ICELAND AND JOINTLY OWNED BY THE ICELANDIC GOVERNMENT AND ELKEM-SPIGERVER, THE MAIN ELEMENT OF WHICH WILL BE ELKEM-SPIGERVERK FURNACES.

7. SKAANLAND SAID THAT THE NIB BOARD HAD SO FAR APPROVED FINANCING FOR ONLY TWO PROJECTS--LOANS FOR CONSTRUCTION OF A POWER LINE BETWEEN FINLAND AND SWEDEN AND FOR THE FERROSILICON PLANT. THE BOARD WILL MEET IN ABOUT TEN DAYS TO CONSIDER FIFTEEN MORE PROJECTS. SKAANLAND OFFERED TO DISCUSS RESULTS OF BOARD MEETING WITH E/C COUNSELOR, IF DESIRED. DEPARTMENT SHOULD ADVISE WHETHER INFORMATION ON BOARD MEETING IS DESIRED.

8. SKAANLAND ADMITTED THAT ICELAND AND FINLAND AND TO A LESSER EXTENT DENMARK WILL BE MAJOR BENEFICIARIES OF NIB FINANCING SINCE FINANCIAL POSITIONS OF NORWAY AND SWEDEN ARE CONSIDERABLY STRONGER,

AND NIB LOANS TO PROJECTS IN NORWAY OR SWEDEN WHICH COULD RAISE COMMERCIAL LOANS WERE LESS LIKELY THAN LOANS TO OTHER THREE MEMBERS.

9. NIB PICKED UP ICELANDIC FERROSILICON PROJECT AFTER UNION CARBIDE BACKED OUT OF PROJECT, SKAANLAND SAID. ACCORDING TO SKAANLAND, FERROSILICON PROJECT WAS STILL VIABLE AND WITHDRAWAL OF UNION CARBIDE WAS RESULT OF CHANGE OF INTERNAL UNION CARBIDE POLICY RE FOREIGN INVESTMENT AND NOT RPT NOT CHANGE IN UNION CARBIDE EVALUATION OF THE PROFITABILITY OF THE PROJECT. NIB WOULD HAVE PREFERRED TO DRAW UP GUIDELINES FOR ITS FINANCING OF PROJECTS SUCH AS THE FERROSILICON PLANT PRIOR TO ENGAGING IN ACTUAL DISCUSSIONS OF THE PROJECT, BUT AGREED TO CONSIDER FERROSILICON PROJECT EVEN BEFORE GUIDELINES WORKED OUT, AT REQUEST OF ICELANDIC GOVERNMENT. AS A CONSEQUENCE, FERROSILICON PROJECT WILL NOT NECESSARILY BE MODEL FOR FUTURE NIB FINANCING.

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10. EMBASSY IS NOMINATING SKAANLAND FOR PARTICIPATION IN USIS IMPORTANT VISITOR PROGRAM IN FY 1977. SKAANLAND PLANS TRAVEL IN THE US IN SEPTEMBER PRIOR TO IMF/IBD ANNUAL MEETING IN WASHINGTON WHICH HE WILL ATTEND. INTERESTED WASHINGTON AGENCIES MAY WISH TO PURSUE DETAILS OF NIB FUNCTIONS AND PURPOSES WITH SKAANLAND WHILE HE IS IN WASHINGTON.
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